

Global economic outlook (page 2)

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- The US economy is forecast to grow by 2.3% in 2026, a slight downward revision due to recent geopolitical developments, with consumer spending expected to moderate and investment growth to improve modestly.
- Elsewhere, we have trimmed our 2026 growth forecasts in Europe (to 1.1%) and China (to 4.4%) as the ramifications of recent events ripple through to the bottom line. Inflation has also been revised higher as pressures mount in all regions.
- The duration of the Middle East conflict will shape the nature of any economic shock: a shorter conflict will mostly drive inflation, while a prolonged conflict will dampen growth; nonetheless, central banks are unlikely to implement dramatic rate hikes at this time.

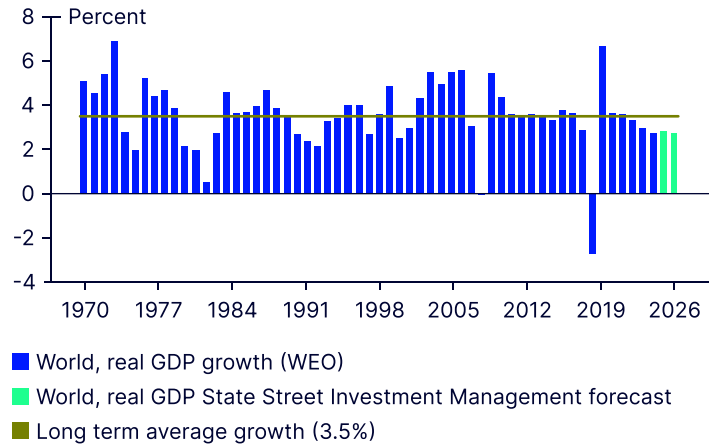
Global Capital Markets (page 6)

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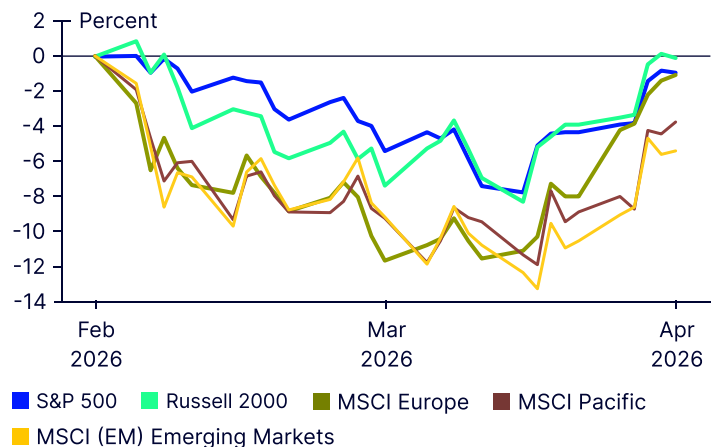
- There are many ways that the war with Iran may play out over the coming weeks or months. But the significantly different market outcomes that arise from scenario analysis of the situation means that taking big stock versus bond positions should be deferred.
- Investments in commodities have worked well as a hedge during this period of increased geopolitical risk and we continue to see value in the asset class both from an intermediate fundamental standpoint and as an ongoing tail risk hedge.

Figure 1: Unfolding events in Iran dampen growth outlook



Source: International Monetary Fund, Macrobond, State Street Investment Management, as of March 27, 2026. The above forecast is an estimate based on certain assumptions and analysis made by the State Street Investment Management Economics Team. There is no guarantee that the estimates will be achieved.

Figure 2: Equity market performance since start of Iran war



Source: FactSet, State Street Investment Management as of April 3, 2026. The performance data quoted represents past performance. Past performance does not guarantee future results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Global economic outlook

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At the end of the opening quarter of 2026, a shroud of uncertainty hangs over prospects for the world economy as the war in the Middle East continues. But this is not the first major geopolitical event of recent times and the economic impact of such events has historically been short-lived in most cases. But much will depend on how quickly a resolution can be achieved.

In recent times, there has been a number of major shocks to the global economy occurring around the March-April timeframe. Examples include the onset of the Covid pandemic, the Russia-Ukraine War, regional bank crises, and the Liberation Day tariff announcement last year. This complicates the assessment of the economic impact. The trajectory shifts early, so the cumulative effect can be dramatic; but there is also time for corrective action to mitigate the impact.

Arguably, in the cited instances, the ultimate economic outcomes were less dire than initially feared. We are currently leaning toward the Iran war impact also being less than feared. One reason for this is that widely different geopolitical scenarios can result in similar economic outcomes. For example, Iran could agree to reopen the Strait of Hormuz if it obtains desired concessions, or the US (and allies) could use military means to force it open—the geopolitical implications are vastly different, the economic ones less so. There are important lessons to be learned from the Liberation Day experience—scenarios that are unbearably costly for all stakeholders tend not to materialize because nobody wants them to. An extended/indefinite closure

of the Strait is, in our view, just such an unbearably costly scenario. The path to resolution is unclear but we presently anticipate a less onerous outcome.

From an economic perspective, the shorter the conflict, the more likely that the shock is largely inflationary; the longer it is, the more growth takes a hit. Either way, we do not believe that the dramatic hawkish shift in policy rate expectations is warranted. Central banks can warn about the possibility of rate hikes to combat inflation but we believe the likelihood that they will actually deliver them is still low, even though the sole inflation mandates of many banks (outside of the US) would argue for earlier tightening. Yet the memory of past policy mistakes (especially for the European Central Bank (ECB), whose premature tightening during prior downturns proved ill-advised) should stay most policymakers' hands enough to allow for a resolution of the conflict.

United States: Relatively more cushion

Following growth of 2.9% and 2.8%, respectively, in 2023 and 2024, the US economy expanded at a closer-to-trend rate of 2.1% last year. The slowdown in growth was broad-based. Household consumption growth moderated three tenths to 2.6%, mostly due to slower services consumption. Private fixed investment slowed 0.7 percentage points (ppt) to 2.7%, largely due to contraction in residential (-2.1%) and structures (-5.3%) investment. These declines partly offset surging equipment (+8.3%) and solid IP investment (+5.7%).

Given the latest geopolitical developments, we anticipate only a mildly better performance of 2.3% growth in 2026. This marks a downward revision from our projection of 2.5% growth immediately prior to the start of the Iran conflict. Consumer spending likely

moderates further as a result of softer employment conditions and an already low savings rate. Private fixed investment growth should improve, but the underlying dynamics are unchanged; the drag from residential and structures investment is merely less pronounced. A calmer macro environment and lower long-term rates may have incentivized better outcomes for home sales, residential investment, and consumer spending, but that pickup is now delayed.

Unemployment claims have been surprisingly low, and the jobless rate has eased slightly from its recent peak. However, employment data has been volatile and the trend in job opening points to ongoing softness, as does the “positions not able to fill” metric from the small business NFIB survey. Against this backdrop, wage inflation has been well behaved; in fact, average hourly earnings for production and supervisory employees rose just 3.7% year-on-year (y/y) in January-February, a level that prevailed right before the pandemic. Despite persistent immigration restrictions, the labor market appears unable to generate much in the way of wage inflation. This is an important consideration for the Federal Reserve (Fed) as it ponders the appropriate policy path ahead.

We remain concerned about the potential for AI-related labor displacement. This force already operates at the margin (new graduates, specific industries such as computer science, etc.) and seems likely to intensify over time. Monetary policy (via easing) can offer support to other industries and to consumption, potentially slowing the impact jobs.

Given that national unleaded regular gasoline prices surged about 25% in March, headline inflation is poised to accelerate by about a full percentage point to 3.4% y/y. If there is a meaningful improvement in Hormuz Strait traffic by end April, the full-year impact should settle in the neighborhood of 0.4 percentage points (3.0% CPI inflation average for 2026). But the risks are clearly to the upside. Even so, aside from the lack of worrisome wage inflation, it is also important to note ongoing disinflation in shelter costs. A more price sensitive consumer should also help limit second-round price effects from the energy shock.

This leaves the Fed in a difficult position and with hawkish inclinations, at least until more clarity emerges

on the Iran front. We do not believe the door to rate cuts has closed, and we see no credible reason for a hike (one hike won't make a difference and even a few won't remedy the cause and could worsen labor market dynamics). We have reduced the number of expected rate cuts this year from three to two and pushed back the timing of the first cut to September.

Eurozone: Navigating one shock after another

Each of the many global shocks of the last few years has reinforced an unpleasant reality for Europe: the region is considerably more vulnerable than the US. The German debt brake deal in early 2025 was one of the most meaningful attempts to correct for this challenge—and investors responded quite positively. Yet before the new fiscal spending could truly filter through the economy, the Iran war shock hit. And Europe isn't really ready for this one, either. But it is better prepared than it was when the Ukraine war broke out, having diversified its energy imports since. For example, more than half of Europe's LNG imports now come from the US, with about 10% coming from Qatar. The war still carries a negative impact, but not nearly as severe as it could have been (and less severe than the Ukraine war impact).

Cautious European consumers are less likely to spend freely during a geopolitical event, and we expect consumer spending to grow a tepid 1.3% in 2026, a bit lower than last year. Fixed investment should sustain a faster pace of about 2.4%, given that the benefits of increased defense spending will increasingly trickle through. We expect some disruption and subsequent ‘lumpiness’ to inventory accumulation which may render quarterly GDP growth more volatile than usual. But we are reluctant to assume the worst and we see two-sided risks to our 1.1% real GDP growth forecast.

Inflation will inevitably accelerate, but there are two helpful aspects to keep in mind. Unlike the US, eurozone inflation had essentially already returned to target, and the less direct pass-through from oil prices to inflation (partly due to high proportion of taxes in final price) will likely slow the transmission mechanism to some extent. Most importantly, as the ECB considers options for the path of policy, wage inflation as measured by the ECB indicator of negotiated wages

currently sits at a comfortable 1.9% y/y. Unless the conflict is protracted or there is substantial damage to energy productive capacity that cannot be offset globally, it is far too early to fear an inflationary wage price dynamic of the kind that prevailed post Covid. As such, we see no reason for the ECB to rush rate hikes. Our baseline expectation remains for an extended hold, though this could change if the conflict extends beyond May.

United Kingdom: Increasing upside risks to inflation

Our latest projection for GDP growth in 2026 is 0.7%, down from a December estimate of 0.9%. The change is largely attributed to persistent geopolitical tensions in the Middle East—elevated oil and gas prices are expected to exert upward pressure on inflation, with a negative knock-on effect on consumer purchasing power. We anticipate that the Bank of England (BoE) will maintain its current monetary policy stance throughout 2026, given ongoing uncertainty surrounding inflation expectations.

The future of the US/Israel-Iran war is unpredictable in terms of both length and severity. Should high oil and gas prices persist, headline inflation could average 4.2% in Q2. However, our baseline forecast anticipates that disruptions will lessen as the second quarter progresses, causing oil prices to gradually decline to an average of \$85 per barrel in the latter half of the year, while gas prices increase to 125 pence per therm for the price cap for the July-October period. Under these conditions, inflation is expected to peak at 3.8% in Q3.

Although fuel prices have quickly responded to higher oil costs, the impact on UK domestic energy bills is expected to become apparent from July onwards due to the energy price cap. Increased oil and gas prices are also expected to raise input costs across various sectors. However, due to continued labor market weakness and declining consumer spending, these effects are anticipated to be less pronounced than those experienced in 2022.

Government support measures are not expected to match the levels seen in 2022, as fiscal constraints

and elevated public expenditure demand, particularly in defense, are poised to limit the Treasury's ability to implement substantial additional interventions without resorting to tax increases. UK Chancellor of the Exchequer Rachel Reeves also indicated that targeted measures, rather than universal support, may help alleviate inflationary pressures arising from escalating energy costs.

Overall, our baseline forecasts indicate an average CPI inflation rate of 3.8% in Q3, with a modest decrease anticipated in Q4. On an annual basis, we expect headline CPI inflation to average 3.3% in 2026, before declining to 2.7% in 2027.

Japan: Learnings from the past bear fruit

Japan is one of the advanced economies most exposed to global energy disruptions. Nearly 90% of Japan's crude oil imports originate from the Middle East, with Saudi Arabia and the UAE each supplying approximately 40% of total volumes. Although Japan's liquefied natural gas (LNG) imports from the region are relatively limited, around 10%, global LNG prices have surged. However, Japan's historical experience with oil shocks, combined with structural reforms and strategic policy responses, has helped mitigate the economic fallout, notwithstanding concerns about inflationary pressures and energy security.

This resilience lies in the lessons learned from past oil crises. The 1973 oil shock, triggered by the OPEC embargo, exposed Japan's vulnerability as it relied on imported oil for 97% of its energy needs. Inflation spiked to 25% in 1974, causing the first postwar economic contraction and prompting a comprehensive policy overhaul. The government implemented fuel rationing and launched energy conservation campaigns and gradually diversified its energy mix by investing in nuclear power, LNG, and coal. By 1985, nuclear energy accounted for approximately 20% of electricity generation. Simultaneously, Japanese industries adopted energy-efficient technologies, particularly in manufacturing and transportation, which significantly reduced energy consumption and enhanced competitiveness.

These reforms continued through the 1979 oil crisis and the 1990 Gulf War. By the early 1990s, Japan's energy intensity had declined substantially, and the economy demonstrated greater resilience to external energy shocks. Today, Japan uses approximately 50% less energy per unit of GDP than it did in the 1970s. This structural improvement has been instrumental in buffering the economy against the current disruptions in global energy markets.

In the current conflict, Japan benefits from the activation of alternative supply routes by its key energy partners. Saudi Arabia has increased utilization of its East-West Pipeline (Petroline), which transports crude oil from eastern production hubs to the Red Sea port of Yanbu. Similarly, the UAE has relied on the Habshan-Fujairah pipeline, which bypasses Hormuz by delivering oil to the Gulf of Oman. These logistical adjustments have helped ease concerns about a full-scale supply crisis but there is the potential for escalation as the Bab el-Mandeb Strait—through which all Saudi Red Sea exports must pass—is within striking range of Houthi missiles, drones, and naval threats. This is a risk case for our forecasts.

Takaichi takes action

The Japanese government led by Prime Minister Sanae Takaichi has taken proactive measures to stabilize energy markets and contain inflation, authorizing the release of 80 million barrels from strategic petroleum reserves—equivalent to 45 days of domestic consumption. This release, combined with targeted price control measures, has helped dampen the pass-through of global energy price increases to consumers. Additionally, Japan's diversified LNG supply portfolio, particularly its strong import relationship with Australia, has provided a buffer against volatility in the global gas market.

Inflationary pressures have remained contained and average CPI is projected to rise to 2.0% in 2026, up from 1.8% in December 2025. In 2027, CPI is expected to increase further to 2.8%, reflecting both lagged effects of current price increases and base effects from the disinflation in energy. Although inflation is within a manageable range, economic growth is expected to slow more significantly. Our growth model estimates that avoiding an adverse price spike will lead to nominal GDP growth of 2.6% in 2026, down

from 3.9% last year. We forecast real GDP growth of 0.6% in 2026, which then recovers to 1.0% in 2027. These projections represent a relatively optimistic scenario, assuming global crude oil prices average \$85 per barrel in the second half of 2026.

Bank of Japan likely on hold

We expect the Bank of Japan (BoJ) to remain on hold for most of the year, given the complex policy environment marked by geopolitical uncertainty and tepid domestic growth. However, should the Iran conflict de-escalate in the near term, a rate hike could be delivered earlier—although the April 28 meeting may come too soon for such a decision. A prolonged conflict could see the BoJ delay further tightening until late 2026, as it is important that the BoJ looks past rigid timings to ensure policy is normalized.

However, the key will still be how markets react; a prolonged war with spillover effects into the bond market and the yen would present additional challenges for the Ministry of Finance and the BoJ. As such, yields have been aggressively repriced, but the yen still remains on a weakening bias as capital flies to the perceived safety of the US. We still see the yen trending over 150, a level that helps Japan maintain export resiliency while ensuring some positive spillovers into underlying inflation.

In a risk case of higher oil prices in a prolonged conflict, the secondary effects of inflation are an acute risk, especially in food as gas shortages are expected to lift fertilizer prices. Food accounts for over 26% of Japan's CPI and influences public sentiment—it is noteworthy that higher rice prices led to higher inflation in the last two years.

In conclusion, Japan's current energy and inflation outlook is shaped by a combination of historical preparedness, strategic diversification, and timely policy interventions. While the country remains structurally exposed to Middle Eastern energy supplies, its ability to adapt through alternative logistics and domestic policy has helped mitigate the worst effects of the current crisis. Continued coordination between fiscal and monetary authorities, along with a flexible policy stance, will be essential to navigating the evolving global energy landscape and preserving economic stability.

Global capital markets outlook

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There are many ways that the war in Iran may play out over the coming days, weeks, or months. But the significantly different market outcomes that arise from scenario analysis of the situation means that taking big stock-versus-bonds positions should be deferred. Investments in commodities have worked well as a hedge during this period of increased geopolitical risk and we continue to see value in the asset class both from an intermediate fundamental standpoint and as an ongoing tail risk hedge.

Flooding the zone, draining the inventories

When we entered the first quarter of 2026 we held a cautiously optimistic view for global equity markets. Relatively benign levels of market risk aversion coupled with firm sales and earnings growth trends looked likely to be supported by incremental fiscal stimulus in the United States and abroad. However, that supportive backdrop was gradually, but systematically, eroded. Early in the quarter, the United States captured Venezuelan President Nicolas Maduro. In short order, the Justice Department subpoenaed the Chair of the Federal Reserve. Threats were made to take over Greenland by force. And when the Supreme Court overturned the President's IEEPA tariffs a new 10% global tariff was quickly put in place. From a markets perspective, many of these political and geopolitical events were either

not particularly market-moving or were overshadowed by other concerns related to the prospects of software companies or the threats that might lie within the private credit ecosystem. But the mood was shifting.

The onset of war with Iran raised the geopolitical stakes to a more dangerous level. To be fair, the operation in Iran was not viewed as a significant risk to markets from the start. Geopolitical conflict in the Middle East is in some respects unfortunately omnipresent. But the effective closure of the Strait of Hormuz represented a risk of an altogether different order. What started as a tail risk for markets metastasized into the defining issue facing markets and economies today.

To be sure, a constructive market scenario is still a real possibility. There is plenty to like about the setup for both equities and bonds in a less severe, short war scenario. Equity valuations have retreated to levels last seen a year ago (in and around the Liberation Day volatility) while earnings estimates continue to grind higher. Long-term US interest rates are at the top end of their range, while those in Japan and the UK hover at multi-decade highs. Even diversified commodity investments might not suffer too much if energy prices ease as the growth outlook stabilizes and gold picks up where it left off prior to the war.

But our fundamental assessment of the geopolitics remains skeptical of a quick and easy resolution as markets whipsaw on headlines and social media posts. Our risk indicators are increasingly cautious. And even our quantitative equity forecasts have become more subdued. We'll need to remain nimble and attentive, but now is not the time to take significant equity risk in our view.

Market risk regime alert level has increased

Only one month on and it's almost hard to remember that the initial reaction to the war with Iran was one of relative nonchalance. Initial sell side reporting catalogued the litany of geopolitical flare-ups in the Middle East, which generally held little sway over the direction of equity markets. But with energy supplies disrupted, it was not long before the tone changed and analysts and energy market authorities suggested that the energy challenges were the largest that the world economy has ever experienced.¹

Our own gauge of market sentiment, the Market Regime Indicator (MRI), has perked up but in a very gradual fashion. When compared against some of the recent “spring shocks” as outlined in the macroeconomic overview, our MRI has reached levels comparable to that of the regional bank crisis in the spring of 2023 (see Figure 3). Whether risk appetite quickly resumes and endures, as happened in that instance, remains to be seen.

Figure 3: Spring shocks and the MRI



Source: State Street Investment Management Investment Solutions Group as of April 2, 2026.

Perhaps a closer analog from the recent past would be the Russian invasion of Ukraine in 2022. In that episode, our MRI remained elevated for the better part of the entire year as both equity and bond markets suffered

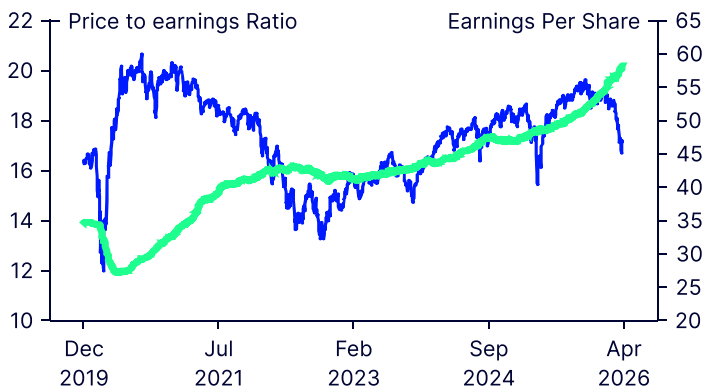
nasty drawdowns. Arguably, the backdrop at that time was more vulnerable to a damaging wave of inflation. In the United States, the 2021 American Rescue Plan (ARP) represented stimulus worth approximately 9% of GDP at a time when output gaps were already narrowing. The unemployment rate fell rapidly from roughly 7% to below 4%, while average hourly earnings were running at 5% and rising. Meanwhile, real yields hovered at approximately -1% at the 10-year tenor. Today, the stimulus from the One Big Beautiful Bill Act accounts represents roughly 1.5% of GDP for its peak stimulus year (2026). The unemployment rate is in the low 4% range and generally rising. Average hourly earnings have been trending lower and real yields are far more remunerative at 2.0%—providing some cushion for bond investors.

Even if the environment isn't as susceptible to a meaningful wave in inflation, it's not clear precisely what can be gleaned from history. Whether we try to extrapolate from Russia-Ukraine, the first Gulf War, or the oil shocks of the 1970s, we may find attractive analogies. But there won't be a blueprint outlining how the current crisis will unfold. To the extent that our market-based regime indicator suggests tilting portfolios closer to neutral from an overall risk asset perspective, that seems like a reasonable stance given the tail risks involved today.

Equity sentiment not as good as it seems

Across equity markets directly, the hit to sentiment has probably been somewhat more dramatic than might be inferred from top line performance since the Iran War began. Through early April, the dip in US equity markets since the end of February is barely noticeable. Meanwhile non-US developed and emerging markets have fallen somewhere in the mid-to-high single digits—meaningful but not cataclysmic moves. However, as Figure 4 illustrates, this market performance has come as expectations for earnings have either held firm or continued to advance. S&P 500 earnings expectations have been revised up by ~4% since the end of February. In emerging markets, earnings estimates are up ~2% over the same period (see Figure 5).

Figure 4: Global earnings per share maintain strength



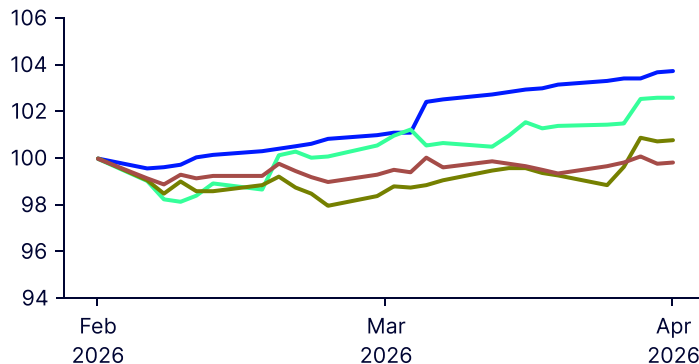
■ MSCI AC World—Price to Earnings Ratio
 ■ MSCI AC World—Earnings Per Share

Source: FactSet, State Street Investment Management as of April 3, 2026. The performance data quoted represents past performance. Past performance does not guarantee future results.

What accounts for the resilient earnings outlook in the face of daunting geopolitical and energy risks? Some of the drivers are pretty straightforward. Forward earnings per share (EPS) estimates for the US energy sector have jumped by 25% since the start of the war, while the materials sector has seen earnings estimates revised up by roughly 4%. Notably, these revisions are almost identical to those that occurred in the first month after Russia invaded Ukraine. What has been meaningfully different compared with 2022 has been continued optimism surrounding the earnings outlook for the technology sector—where EPS estimates have jumped by nearly 10% over the prior month.

In emerging markets, we’ve also seen some similarities in the underlying earnings picture when compared against 2022. For example, the outlook for EPS growth for Chinese companies steadily deteriorated in the early days and weeks of the two conflicts. However, the lift to EPS growth that Saudi Arabia exhibited in 2022 has understandably not materialized during the current conflict. Rather it is the technology-heavy and AI-exposed market in South Korea where earnings upgrades have bolstered the fundamental outlook.

Figure 5: EPS expectations still (mostly) grinding higher



■ MSCI USA—Earnings Per Share
 ■ MSCI EM (Emerging Markets)—Earnings Per Share
 ■ MSCI Europe—Earnings Per Share
 ■ MSCI Pacific—Earnings Per Share

Source: FactSet, State Street Investment Management as of April 3, 2026. The performance data quoted represents past performance. Past performance does not guarantee future results.

What should we make of these divergent perspectives with multiples contracting as earnings expectations continue to climb? On the constructive side, we think that this may be illustrative of the resilience of the corporate sector and offers hope for firmer equity market trends to reassert themselves. More pessimistically, we observe that it wasn’t until late summer 2022 when EPS estimates broadly started to roll over, and by that point equity markets were approaching what would turn out to be their lows for the year.

In our portfolios, our overall equity allocation is roughly neutral given the bifurcated risk outlook and the deterioration that we have seen in our regime and asset class models. Within equities, the US market certainly has relatively more cushion during an energy shock as a net energy exporter. Improving momentum factors and the noted strength of earnings and sales expectations also support the US market. We also like emerging market equities on a relative basis, notwithstanding their recent underperformance. Favorable valuations and improving macro factors such as firming trends in current account balances help to support emerging markets despite their energy import needs. Although Europe has diversified its energy imports, it remains vulnerable with relatively sharper downgrades to growth and a comparatively lackluster outlook for profit growth—we remain underweight.

Scenario and sequencing risk for bond markets

Any shock that threatens to re-awaken inflation risks would typically send bond investors heading for the hills (and we did see those outflows materialize during the month of March). Yet we find ourselves adding meaningfully to fixed income investments overall. For asset allocators, the question isn't strictly about bonds; however, and part of the calculus here relates to our lower tolerance for equity risk at present. But markets might well be too pessimistic about the outlook for interest rates. And even if the supply shock and inflationary consequences become more entrenched, those dynamics would eventually damage global economic growth sufficiently that bonds start to behave more like a safe haven again.

From the geopolitical perspective, little is crystal clear but a decent case can be made that forward-looking scenarios are, on balance, supportive of fixed income markets. Especially as major developed market bond yields hover at the upper end of their post-2022 range. In the best case, where we see a quick de-escalation and cessation of hostilities, interest rates likely retrace lower even if only to the middle of the prevailing range—a scenario that appears to be in progress at the time of writing. In a prolonged war, this would keep yields elevated but eventually growth concerns likely lead to self-correcting shifts towards lower interest rates. Perhaps the toughest odds to handicap would be in a dramatic escalation where a case can be made that interest rates jump on additional supply-side inflation shocks; but it's equally plausible that investors turn to bonds as risk assets lose their appeal. Though we remain underweight fixed income in total, our bond composition is such that we are marginally overweight duration at the portfolio level.

Comfortable in commodities

Commodity exposure has again asserted itself as a beneficial diversification tool during market environments that prove challenging for traditional stock and bond investments. And even with seemingly

constructive US-Iranian developments in early April, which sent oil prices back below \$100 per barrel, the diversification within commodity allocations themselves has enabled the asset class to maintain its value overall.

Going forward, as is the case with all financial markets, there is a wide range of shorter-term possibilities in energy markets. As time goes by, a higher floor seems to be more and more baked in for the short and even intermediate time horizon. With more inventory consumed (60-70M barrels in March) as the upstream supply is restricted, tightness in energy markets continues to build. And from a fundamental standpoint at some point replenishing those inventories will buoy prices. On top of this is the time to repair oil and LNG facilities in the Middle East. So we will likely see continued volatility, and meaningful price concessions for oil if peace negotiations prove fruitful, but even in that scenario (and it is just one scenario) a meaningful risk premium compared to pre-war levels should remain in place.

The Middle East conflict also dominates price movements in industrial metals, with energy price increases dampening global risk sentiment and cyclical demand, particularly for copper, while supply disruptions bolster metals with constrained supply. Roughly 9% of aluminum supply, for instance, is sourced from the Persian Gulf where transit issues and infrastructure damage is likely to lead to temporary shortages. Other key metals like copper are less directly affected; however, constraints on the availability of sulfur and sulfuric acid (which are hit by the closure of the Strait of Hormuz) may negatively impact copper supplies.

While our allocation to commodities has worked well to offset the turbulence in global equity and fixed income markets, we continue to see commodities as an attractive asset—both for their potential tail risk mitigation (in the event of escalation or prolonged conflict) as well as in a more benign geopolitical environment.

Still juice left to squeeze

Whether a more benign geopolitical environment is in the offing remains unclear. The US and Iran have reached negotiated resolution to crises in the past—namely through the Algiers Accords which officially ended the Iran Hostage Crisis. Yet a key driver of that agreement from the perspective of Iran was that “the hostages are like a fruit from which all the juice has been squeezed out.”² Today there is plenty of juice left with respect to leveraging the closure of the Strait of Hormuz. And with such divergent outcomes for markets across potential scenarios that may take shape, we are comfortable holding our equity allocation relatively neutral, our fixed income exposure (duration) close to neutral, while still favoring the commodity complex in a multi-asset portfolio.

Endnote

- 1 [Biggest global oil supply disruptions in history | Reuters.](#)
- 2 Shaul Bakhash, *The Reign of the Ayatollahs—Iran and the Islamic Revolution* (1984), page 149.

State Street Investment Management forecasts

	2026 (%)	2027 (%)
Real GDP growth		
Global	2.90	2.80
US	2.30	2.20
Australia	1.50	2.00
Canada	1.20	1.80
Eurozone	1.10	1.50
France	1.00	1.00
Germany	0.90	1.60
Italy	0.90	1.00
UK	0.70	0.90
Japan	0.60	1.00
Brazil	1.80	1.90
China	4.60	4.40
India	6.90	6.70
Mexico	1.40	2.00
South Africa	1.40	1.70
South Korea	2.00	2.00
Taiwan	5.90	4.00
Inflation		
Developed Economies	2.60	2.00
US	3.00	2.20
Australia	4.20	2.80
Canada	2.70	2.10
Eurozone	2.60	1.90
France	2.10	1.70
Germany	2.50	2.00
Italy	2.60	1.60
UK	3.30	2.70
Japan	2.00	2.80
China	1.00	0.60

	Mar 31, 2026 (%)	Mar 31, 2027 (%)
Central bank rates		
US (upper bound)	3.75	3.25
Australia	4.60	3.85
Canada	2.25	2.75
Euro	2.00	2.00
UK	3.75	3.25
Japan	1.00	1.00
Brazil	14.75	12.25
China	1.40	1.40
India	5.25	5.25
Mexico	6.75	6.50
South Africa	6.75	6.50
South Korea	2.50	2.50
10-year bond yields		
US	4.32	4.17
Australia	4.98	4.86
Canada	3.44	3.65
Germany	3.02	3.05
UK	4.84	4.81
Japan	2.33	2.50
Exchange rates		
Australian Dollar (A\$/)\$	0.69	0.73
British Pound (£/\$)	1.32	1.35
Canadian Dollar (\$/C\$)	1.40	1.29
Euro (€/\$)	1.15	1.18
Japanese Yen (\$/¥)	159.09	148.00
Swiss Franc (\$/SFr)	0.804	0.85
Chinese Yuan (\$/¥)	6.91	6.49

One-year return forecasts	USD (%)	EUR (%)	GBP (%)	JPY (%)	AUD (%)	CAD (%)
S&P 500	8.3	5.8	5.7	0.8	1.3	0.1
Russell 2000	8.1	5.6	5.5	0.6	1.2	-0.1
MSCI EAFE	5.4	3.0	2.9	-1.9	-1.4	-2.6
MSCI EM	7.4	4.9	4.9	-0.1	0.5	-0.8
Barclays Capital Aggregate Bond Index	4.8	2.4	2.3	-2.5	-1.9	-3.2
Citigroup World Government Bond Index	2.4	0.1	0.0	-4.7	-4.2	-5.4
Goldman Sachs Commodities Index	5.6	3.2	3.1	-1.8	-1.2	-2.4
Dow Jones US Select REIT Index	5.1	2.7	2.6	-2.2	-1.6	-2.9

State Street Investment Management forecasts, as of March 31, 2026. The above estimates based on certain assumptions and analysis made by State Street Investment Management. There is no guarantee that the estimates will be achieved.

About State Street Investment Management

At State Street Investment Management, we draw from our global scale and market-tested expertise to help create original solutions and better outcomes for our clients and the world's investors.

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securities income.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns.

Foreign investments involve greater risks than investments, including political and economic risks and the risk of currency fluctuations, all of which may be magnified in emerging markets.

Investing in commodities entail significant risk and is not appropriate for all investors. Commodities investing entail significant risk as commodity prices can be extremely volatile due to wide range of factors. A few such factors include overall market movements, real or perceived inflationary trends, commodity index volatility, international, economic and political changes, change in interest and currency exchange rates.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

Investing in REITs involves certain distinct risks in addition to those risks associated with investing in the real estate industry in general. Equity REITs may be affected by changes in the value of the underlying property owned by the REITs, while mortgage REITs may be affected by the quality of credit extended. REITs are subject to heavy cash flow dependency, default by borrowers and self-liquidation. REITs, especially mortgage REITs, are also subject to interest rate risk (i.e., as interest rates rise, the value of the REIT may decline).

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